

Keeping



"I just love helping customers, and our new style of doing business. I like showing customers where we are going in the future with new stamps and products."

Tracy Bryson
Retail Clerk

Pace



Our customer focus

The race for customer satisfaction is under way. Only the most creative, most innovative communications companies will have the mettle to challenge for marketplace survival in this global competition. Because today, more than ever, technology is revolutionizing the way customers think about communications products and services and, at the same time, it is giving consumers greater freedom of choice.

For the Postal Service — whose customer base includes virtually every household and business in America — these trends hold important implications in its ability to meet and satisfy

Customers demand value and convenience. They want solutions that save time and are hassle-free. They need new products and services that provide new capabilities, and they want all of these things in a hurry.

Despite this rapid-fire pace and growing desire for new communications services, customers continue to affirm that the Postal Service represents unique value as a provider of secure, affordable and universal mail service.

“To continue to fulfill this mission into the 21st century,” says Chief Marketing Officer and Senior Vice President Allen Kane “we are first



products and services can meet rising customer expectations, and second, what new products and services we can offer in the future.”

Changing arena, clearer focus

Although the rate of increase in mail volume has slowed over the past several years, the Postal Service continues to run the race with all-time high earnings, and has achieved record levels for customer service and satisfaction. So, why should the Postal Service be concerned?

“Because our studies show that markets and the demand for our products are changing in fundamental ways,” says Kane. Of its six primary markets — correspondence and transactions, publications, advertising mail, parcels, international, and expedited delivery — the Postal Service is merely maintaining its share of the advertising mail market and is losing the race for market share in the other five. The effects have not fully been felt, though, because the overall growth in mail volume has masked important changes to the mail stream.

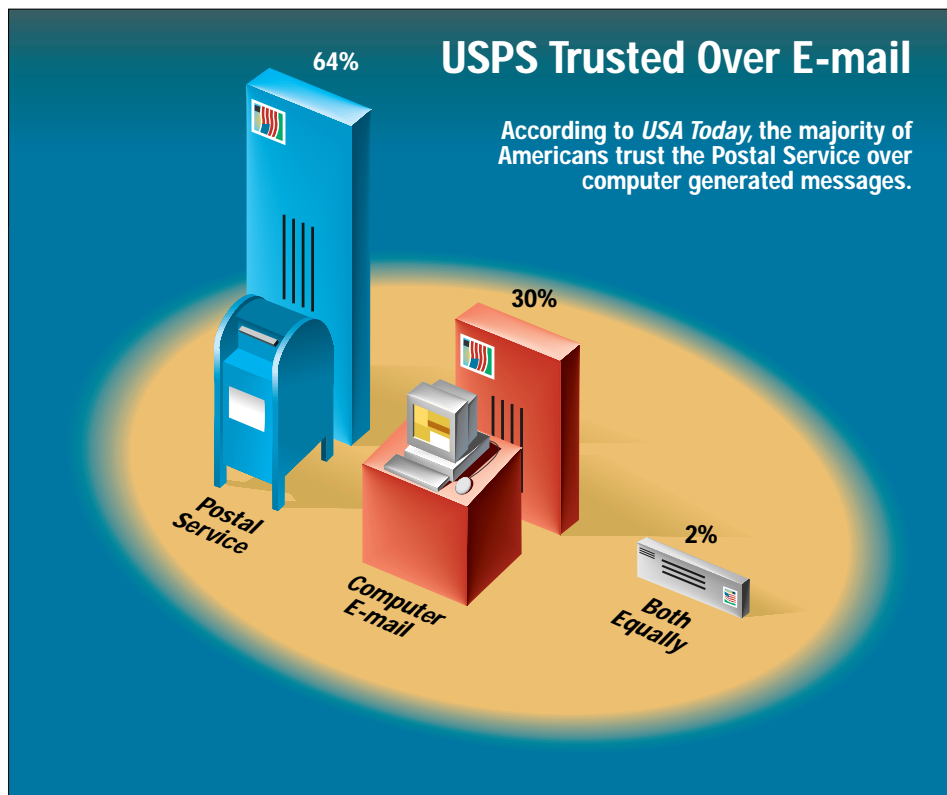
The advertising mail market, which generally includes Standard Mail (formerly known as third-class mail), and the correspondence and transactions market, which is made up of all nonadvertising First-Class Mail, are critical markets to the Postal Service.

“These two markets represent 91 percent of all mail volume and generate 82 percent of our revenue,” says Kane. “But most importantly, they face the highest risk of diversion from both competitors and electronic alternatives such as E-mail and faxes.

“In fact, within small segments of the market,” he says, “computer banking and bill paying is growing at a phenomenal rate. And the growing advertising mail market could take a substantial hit if catalogers and large direct marketers turn to electronic media, such as the World Wide Web.”

To adjust to these changes, the Postal Service is intensifying its efforts to generate additional revenue from existing products and is developing new products and marketing initiatives.

“We are aggressively building higher levels of value into our current offerings and testing new and better ideas that can offer the same value to today’s more sophisticated customers,” says Kane.





Richard Harjo, letter carrier

"It's not a question of 'getting out of the mail business'," he says. "On the contrary, it's a question of making the mail business the best it can be through the effective use of technology. We're developing new mailing solutions."

Powerful products

Surveys conducted in 1996 by *USA Today* and Pitney Bowes concluded that Americans trust the Postal Service more than electronic mail systems when it comes to the secure delivery of their messages. Businesses that rely on this added value of security also found it easier to do business with the Postal Service during fiscal year 1996.

"Through classification reform, we've made it possible for customers to join our team because we now have the ability to involve them in improving the Postal Service," says John

Ward, vice president, Marketing Systems. "Our customers are seeing prices that encourage efficient use of the mail and simpler rules for mail preparation. Many businesses can now share in the cost-saving benefits of automated mail processing — benefits they've earned by their investments in technology."

"These historic changes to postage rates and classifications are the first in a series of major steps in developing a logical approach to positioning postal products and services more consistently with customer demands," he says.

Two existing products that experienced substantial growth in fiscal year 1996 were advertising mail and Priority Mail.

"Ad mail has gotten a bad rap over the years," says Kane, "but the statistics don't bear that out. Most business and residential customers



Priority Mail volume is on the rise.

like mail in general, and direct mail specifically.”

The survey commissioned by Pitney Bowes found that mail will continue to be a significant vehicle for advertising and communicating in the next decade. It revealed that 83 percent of U.S. households said they look forward to receiving mail, with 54 percent saying they enjoy receiving direct mail that is targeted to their interests.

Retailer Bloomingdales of New York knows firsthand about the power of direct mail. “Surveys tell us that 80 percent of our customers prefer to hear from us by mail. That’s powerful,” says Susan Harvey, Bloomingdales’ vice president of Marketing Information Services.

Priority Mail volume grew 10.4 percent in fiscal year 1996, and its outlook is bright as customers compare the Postal Service’s two- to three-day service with competitors’ products.

“There isn’t any other company’s service that comes close to the value of Priority Mail, and in some ways,

there is no competition,” says Ron Yantiss, owner of catalog product manufacturer Inkberry of Winchester, NH. He has turned nearly 100 percent of his shipping business away from the competition to the Postal Service.

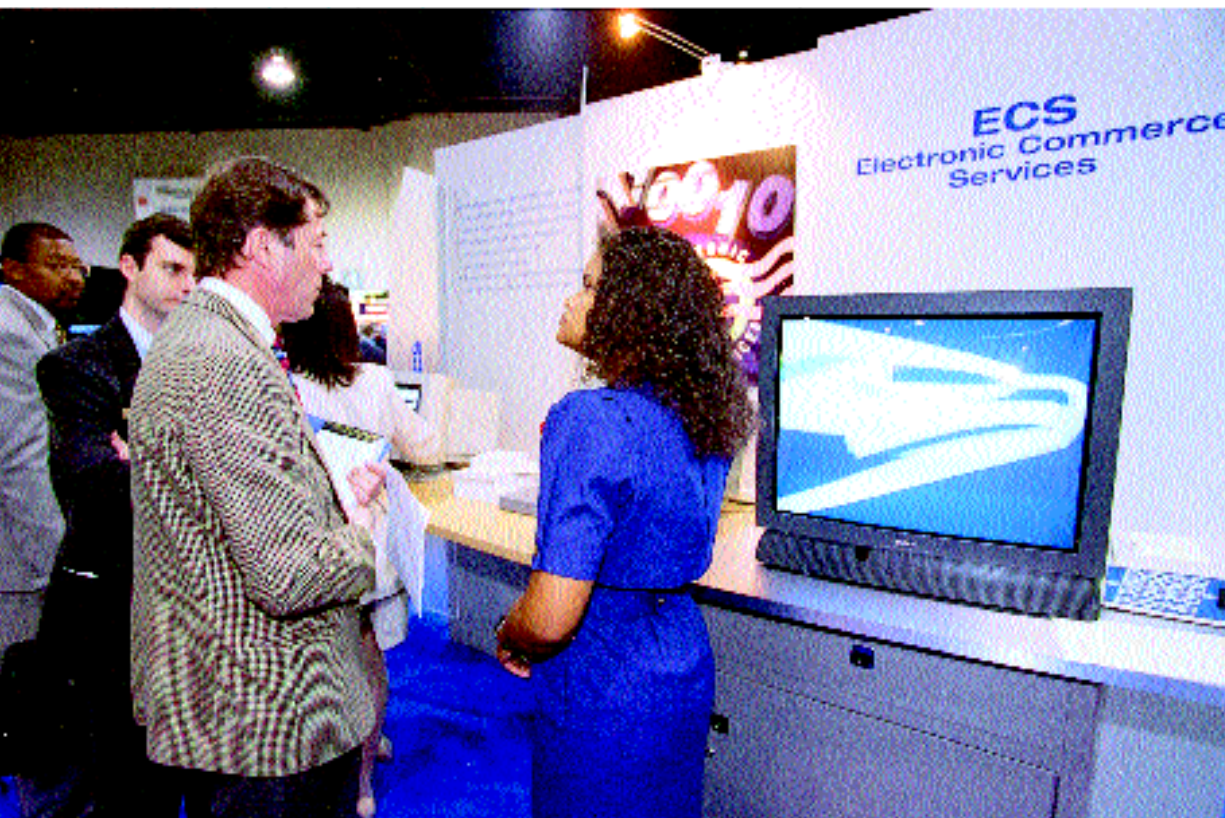
New ideas

One of the more remarkable changes in modern business practice has been the increasing value of the information that is produced during and after a product or service transaction.

“Customers want access to information about the business activity surrounding the delivery of a product or service,” says Cathy Rogerson, manager of Marketing Financial Services. “They want to know the status of their order, which allows them to determine more precisely when it will be delivered and to plan accordingly. In many cases, the business value of this precise information may exceed the actual cost of the product or service itself.”

To help meet a variety of these customer needs, the Postal Service is developing Money Mover — a family of financial service offerings that would provide a range of retail services to transfer funds safely and quickly from one location to another. Transactions would be both paper-based and electronic and target both domestic and international markets. The first pilot offering, Dinero Seguro (secure money), is an electronic money order service to Mexico available at some post offices in the Southwest.

Customer Initiated Payment System is a bill payment alternative that would allow customers to trigger electronic payments by using prepaid user business reply cards.



Electronic Commerce Services exhibit at National Postal Forum.

With REMITCO, another bill payment product, the Postal Service will offer a service that captures checks and statement data and transmits it electronically to payment recipients.

The Postal Service also has partnered with various market innovators to explore new products such as prepaid FirstClass Phonecards, which are now sold in conjunction with American Express at major post offices nationwide.

Added value

By the end of fiscal year 1996, the Postal Service's credit and debit card acceptance initiative was on schedule for completion by spring 1997, when the Postal Service will become the largest provider of this convenient service.

"We have more than 40,000 electronic card terminals processing live transactions in 16,000 retail locations," says Treasurer Stephen Kearney. "Our employees and customers have embraced this modern payment option, and our loss rate on credit card transactions is 0.006 percent, the lowest in the industry."

Customer service kiosks, marketed under the umbrella of Deliver America, have been installed in various postal retail outlets, government buildings and public facilities in North Carolina to test business initiatives designed to carve a niche in the emerging electronic communications marketplace.

Revitalizing retail

The Postal Service is rapidly expanding the effectiveness and reach of its retail merchandising by creating Postal Stores in most major markets in America.

"It's the 'Post Office' made easy," says Retail Vice President Pam Gibert. "Postal Stores are bright and friendly, and feature open product displays and stamp merchandise. We are discovering just how much image counts to our customers."

Postmark America, a prototype retail store located in the Mall of America in Bloomington, MN, opened in September 1996. The store's



Postmark America store at Mall of America, Bloomington, MN

merchandise and decor highlight the Postal Service's role in American history and culture, while featuring specific brand names and images related to the Postal Service and its role in advancing the development of transportation and communications.

To improve the quality of customer service and to provide more comprehensive management and marketing information, the Postal Service also will install Point-of-Service (POS) ONE systems in all post offices with two or

more retail windows beginning in 1997.

POS ONE equipment will replace aging integrated retail terminals and greatly improve the Postal Service's ability to maintain current customers and attract new ones.

"This is a very important tool for us," says Gibert. "It will provide our postmasters, managers, supervisors and clerks critical business information about inventory and sales and

will improve post office box management, provide mailing rules and restrictions guidance, and speed up retail transactions.”

With its Post Office Express program, the Postal Service is locating retail outlets in major retail chains to provide convenient one-stop shopping through extended evening and weekend hours.

Other enhanced retail offerings include Pack and Send, a service that allows customers to bring in any mailable item and have it securely packaged and, if they wish, mailed for delivery. Customers are charged for the packaging service and materials, plus postage if the item is mailed. Some 260 post offices are currently testing the service.

The availability of stamps dispensed by automated teller machines (ATMs) increased in popularity in fiscal year 1996. Now offered through more than 6,000 ATMs nationwide,

stamps can be purchased 24 hours a day, seven days a week.

“All the retail initiatives we are testing and putting in place are conveniences that many of our customers have asked for,” says Gibert. “It’s very satisfying to know that we are following through.”

Reaching out to serve

Today, customer service means more than just a transaction between buyer and seller. Serving the customer means giving access to information, personal attention and follow-up. Customers not only want to know what to expect, they also want attention when the expected service is not provided.

To standardize and improve the level of satisfaction customers obtain when they seek postal information by telephone, the Postal Service is designing a Corporate Call Management system.

Serving Customers

The following cities lead the way with top service scores. In the final quarter of fiscal year 1996, a record 91 percent of local First-Class letters were delivered on time.



"This is similar to efforts commonly practiced by airline, credit card, banking and other industries," says Francia Morhardt, manager, Marketing Call Center Management. "Trained personnel will answer general questions about ZIP codes, postage rates and post office locations."

When completed, the system will be a network of national service centers, available 24 hours a day, seven days a week.

"Serving the customer also means giving them a voice in how you do business," says John Wargo, vice president, Sales. "We listen at our business centers through the mail, but most importantly, we listen through our national account managers and account representatives by establishing face-to-face working relationships and by developing programs that meet customer expectations."

The Postal Service solidifies this connection through customer outreach. Every year, thousands of postal customers participate in the National Postal Forum, a popular trade show and workshop held twice a year at various locations across the United States. In 1996, National Postal Forum came to Anaheim, CA, and Washington, DC, and attracted more than 14,000 business mailers, mail room operators, mailing industry vendors and foreign postal administration officials.

"National Postal Forum gets well-deserved acclaim, but our reach goes well beyond that," says Wargo. "The Postal Service keeps in touch with both business and residential customers at the grassroots level in virtually every community nationwide. And we also benefit from the guidance and know-how of mailing industry representatives in our nation's capital."

Other community outreach efforts, spearheaded by small-town postmasters and district Customer Service and Sales employees, include the activities of some 330 Postal Customer Councils (PCCs). Nationwide, more than 300,000 community and business leaders belong to local PCCs, where they can address postal issues and share ideas about improving postal

products and services. In addition, Postal Business Centers located in many major cities now allow postal managers to better assist the growing population of mailers seeking help with mailing requirements and preparation.

At postal headquarters in Washington, DC, the Mailers' Technical Advisory Committee, a group of mailing industry leaders and representatives from major mailer associations, meets regularly with Postal Service executives to discuss critical postal issues.

"We recognize that, in order to keep pace with customer needs, we must listen to America," says Kane. "And bringing the nation together through communications is something we do very well, because we've been leading the way for more than 200 years."

Going global

Strategic business initiatives launched in fiscal year 1996 by the International Business Unit (IBU) will expand the Postal Service's role as a major global supplier of letter and package delivery services and related business transactions to customers worldwide.

The Postal Service in fiscal year 1996 generated \$1.6 billion in revenue from its international products. By the year 2000, IBU expects to almost double its revenue — reaching some \$2.9 billion.

"We're excited about the overseas opportunities we're bringing to U.S. businesses," says International Business Vice President James Grubiak. "Our International Business Unit has embarked on a very focused mission



PMG Marvin Runyon addresses customers at National Postal Forum.

to create a seamless pipeline for international transactions."

Initiatives that will help spark international mail growth, part of an array of Global Delivery Services, include Global Package Link, which is a proprietary information system and package delivery service designed for large-volume mailers interested in sending merchandise to some of the world's fastest-growing foreign markets. The service is currently available to Japan, Canada, the United Kingdom, Mexico, Chile, Brazil, China and Germany. Other markets will be added soon.

Global Priority Mail was tested last year and is now available in 27 countries. It is an expedited international service positioned between the current express or courier and airmail services. It is available in areas within the United States that generate a large volume of international mail and which are served by the Postal Service's Eagle Air Transport Network.